Manitoba

TEACHERS' RETIREMENT ALLOWANCES FUND

REPORT TO MEMBERS

1986

88-00991/

REPORT TO MEMBERS
1986

THE TEACHERS' RETIREMENT ALLOWANCES FUND BOARD

James G. Oborne, Chairman
William E. Lavery, Vice Chairman

TEACHER MEMBERS	SCHOOL TRUSTEE MEMBERS
David Lerner	George Eakin
Murray Smith	Ray Whiteway
George Strang	

You are welcome to direct your enquiries regarding your status as a member of this plan to the Board office. In order that we may more rapidly answer your enquiries, we suggest that, when doing so, you state the subject you wish to discuss so that we may refer you to the appropriate staff member. It would also expedite matters if you advise as to your social insurance number.

Members of the Plan may visit the office at any time during business hours to examine the Teachers' Pensions Act and amendments thereto, the annual information return to The Pension Commission, the most recent actuarial valuation report, and the latest audited financial statements.

THE TEACHERS' RETIREMENT ALLOWANCES FUND BOARD
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Winnipeg, Manitoba
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THE TEACHERS' RETIREMENT ALLOWANCES FUND
REPORT TO MEMBERS
1986

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THE TEACHERS' RETIREMENT ALLOWANCES FUND
REPORT TO MEMBERS
1986

This report relates to the operations of The Teachers' Retirement Allowances Fund for its fiscal year ended on December 31, 1985. In this connection, we have attached a copy of the Provincial Auditor's Report on the Accounts for that period as well as the related financial statements. Some highlights taken from those statements are:

	1985	1984	% Increase
Investments	$405,778,345.	$352,249,190.	15.2
Investment Income	$ 39,505,840.	$ 28,697,174.	37.7
Rate of Investment Return	10.85%	8.86%	n/a
Teacher Contributions	$ 31,213,813.	$ 29,580,058.	5.5
Contributors	13,287	13,111	1.3
Contributions and Other Payments by Province of Manitoba and Employers	$ 18,258,669.	$ 16,536,488.	10.4
Pension Payments	$ 32,092,001.	$ 28,522,290.	12.5
Pensioners and Other Recipients	3,542	3,355	5.6

PENSIONS:

During the year, 260 income benefits were granted compared to 213 in 1984, as follows:

	1985	1984
Regular Service Pensions		
Ages earlier than 60	144	89
Ages 60 and over	104	108
	248	197
Annuities to retired teachers not entitled to pensions	12	16
	260	213

118 of the total of 248 regular new pensioners chose a plan of payment providing for all or part of the pension to continue to be paid after the retired teacher's death for the lifetime of a beneficiary. 10 chose life pensions guaranteed for a minimum period of either 10 or 15 years, and 120 selected a basic lifetime pension. 78 pensioners who retired before age 65 chose to integrate either or both of the Old Age Security and Canada Pension Plan pension with

their pension from the Fund. Following is a breakdown of new 1985 regular service pensions according to years of pensionable service, with comparative 1984 figures shown in brackets:

Years of Service	No. of Pensioners		Average Monthly Basic Pension	
1 - 9.9	9	(5)	$ 247	($ 575)
10 - 14.9	22	(22)	446	(503)
15 - 19.9	41	(41)	661	(653)
20 - 24.9	42	(34)	1,040	(972)
25 - 29.9	33	(31)	1,254	(1,056)
30 - 34.9	44	(30)	1,772	(1,600)
35+	57	(34)	1,947	(1,984)
1 - 35+	248	(197)	$1,262	($1,127)

Following is a summary of the different types of income benefits being paid at the end of 1985 and 1984:

	1985	1984
Regular Service Pensions -		
to retired teachers	3,108	2,945
to dependents or estates of deceased retired teachers	118	95
Disability Pensions -		
to retired disabled teachers	111	117
to dependents or estates of deceased retired disabled teachers	7	4
Death Benefits -		
to surviving spouses or children of deceased teachers	48	52
Special Annuities -		
to former teachers of retirement age not entitled to regular pensions	150	142
	3,542	3,355

Of the teachers to whom, or in respect of whom the above noted benefits are being paid 2,568 are female and 974 are male (1984 - 2,474 female, 881 male).

INFORMATION AND COUNSELLING

A summary of the benefits available to plan members is contained in a general information booklet which will have been distributed to all teachers before December 31, 1986. If, for some reason you have not received a copy of this booklet by that time you can request a copy by contacting your school division office.

During the year, staff members of the Board have corresponded with many individual teachers. During 1985 there were 355 plan members who made appointments to visit the Board office for assistance in formulating retirement plans or to obtain information concerning provisions for reinstatement of refunded service, reciprocal transfer agreements or other aspects of the plan of specific interest to them. Teachers are encouraged to arrange retirement interviews so that they and their spouses more fully understand key decisions regarding the selection of an optional type of pension payment or integration of their pension with Federal Old Age Security and Canada Pension Plan benefits.

In 1985, staff members acted as resource persons for pre-retirement planning seminars organized by The Manitoba Teachers' Society. These seminars were held in Dauphin, Flin Flon, Steinbach and Winnipeg. 536 teachers planning their retirement registered to attend. Many of them attended with their spouses. Resource persons were also made available for The Manitoba Teachers' Society Employee Benefits Seminar held in Winnipeg in September. Staff members can be made available to any group of teachers who wish assistance in conducting general information meetings related to their pension plan.

The response to individual counselling sessions and to the more general pre-retirement planning seminars indicates that teachers and their spouses have found them to be useful in making informed retirement decisions.

Enquiries continue to result from the provision in the Teachers' Pensions Act which allows teachers to make a special payment to convert their pre-July, 1980 service to a 5-year average in the eventual calculation of their pensions. Information concerning this major change in the Act may be obtained by direct enquiry to the general office.

Amendments to the Teachers' Pensions Act were recently enacted resulting in elimination of the date from most reciprocal transfer agreements which restricted transfer of pensionable service to those teachers who transferred to their province of retirement after July 1, 1973. Many teachers who left this province or who began teaching in Manitoba before July 1, 1973 can now participate within the scope of a reciprocal agreement and have their out of province service

count as pensionable when they retire. Provisions have also been made to allow a former Manitoba teacher to reinstate past refunded service for the purpose of transferring that service to a reciprocating employer's pension plan. If these changes apply in your case you should obtain further details by contacting the T.R.A.F. Board office.

INVESTMENTS:

As may be noted from the financial highlights, the invested assets of the Fund increased during the year by over $53,000,000. This increase, along with over $18,000,000. of funds resulting from maturing securities, was invested under the direction of the Investment Committee comprised of the Chairman of the Board, a "teacher" member of the board, David Lerner, and the Provincial Deputy Minister of Finance. The investments chosen by the Committee may be summarized as follows:

	% of Total	Cost ($ 000)	Average Yield %
Bonds - Government of Canada.....	13.9	$ 9,956,	11.81
- Province of Manitoba.....	4.2	2,985,	11.59
- Canadian Corporations.....	13.6	9,728,	11.74
Total Bonds.....	31.7	22,669,	11.75
Mortgages - Insured, N.H.A.....	13.9	9,903,	12.20
- Uninsured.....	1.1	800,	11.90
Total Mortgages.....	15.0	10,703,	12.18
Total Fixed Income..	46.7	33,372,	11.89
Equity Investments			
Real Estate.....	10.4	7,436,	
Direct Natural Resources.....	16.1	11,491,	
Venture Capital.....	4.2	2,999,	
Total Equity.....	30.7	21,926,	
Total Longer Term Investment.....	77.4	$55,298,	
Short Term Investment.....	22.6	16,150,	
Total New Investment.....	100.0	$71,448,	

Although there was a net increase in the amount invested in every asset class, the percentage of total investments representing fixed income securities reduced by approximately 3% to 56.7%, offset primarily by approximately equal increases in short term and oil and gas investments.

As investments in real estate, mortgages, venture capital, and direct acquisition of natural resource assets require advance commitment of funds which are paid out during or on completion of construction or as required to fund venture capital or natural resource acquisitions, over $22,000,000. of unfunded commitments were in place at the end of the year as follows:

	Amount ($ 000)	Average Yield
Bonds, Cadillac Fairview (Polo Park)....	$ 1,900,	12.72%
Mortgages - Insured, N.H.A.....	4,662,	11.79%
- Uninsured.....	3,450,	11.51%
Real Estate Equity.....	3,413,	
Direct Natural Resources.....	5,887,	
Venture Capital.....	2,698,	
Total Commitments.....	$ 22,010,	

During 1983 the Fund established a wholly owned pension resource corporation in order to participate in certain types of direct investment in oil and natural gas properties on a pre-tax basis as provided for in the Income Tax Act (Canada). A copy of the financial statements of Teachers' Retirement Resources Investment Corporation of Manitoba Inc. for the year ended December 31, 1985 and the related auditor's report, is included with this report.

The rate of return on average net assets of the Fund increased in 1985 to 10.85% from 8.86% in the preceding year. In the 1984 financial statements, the carried value of the Fund's investment in Canadian Commercial Bank was substantially written down as a result of actions taken by the bank in early 1985. Later events in the year have caused us to acknowledge that there will be little or no recovery on this investment and to write it down to a nominal value. Had these events not occurred, the 1985 rate of return would have been approximately 11.40% (1984 - 10.85%).

ACTUARIAL VALUATION:

Under the Act, an actuarial appraisal of the Fund is made every 3 years. The most recent appraisal as at January 1, 1984 disclosed an actuarial surplus of $37,677,206. as compared to an unfunded liability at January 1, 1981 of $19,506,225.

This significant improvement in the financial position of the Fund ensured that resources were available to meet all existing obligations under the Act as well as the increased liabilities resulting from subsequent changes in the Act that were required to bring the Plan into compliance with amendments that had been made to The Pension Benefits Act.

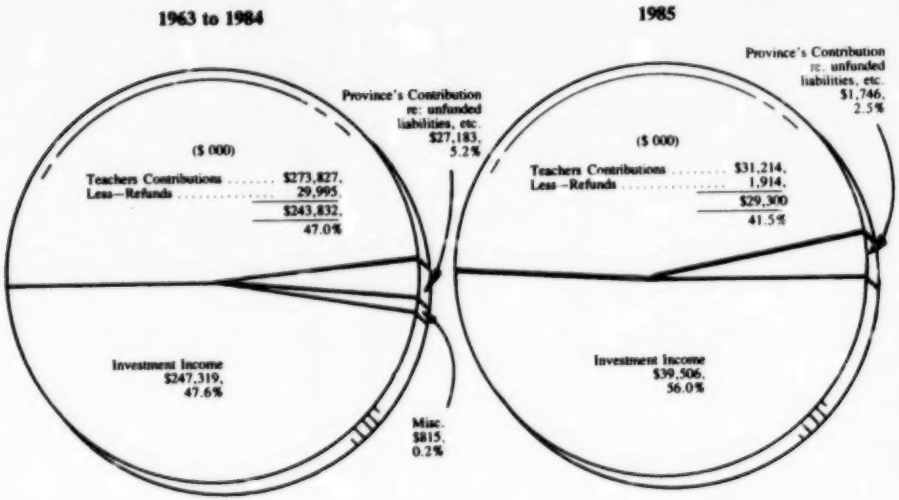
BOARD MEMBERSHIP:

The Board is comprised of 7 members appointed by the Lieutenant Governor in Council. 3 are recommended for appointment by The Manitoba Teachers' Society and 2 by The Manitoba Association of School Trustees, with the remaining 2 appointed directly by the government. The names and sources of appointment of the current members of the Board at June 30, 1986 are shown at the beginning of this report. In 1985, Kenneth Valainis was replaced by George Strang at the expiration of his term as a "teacher" member and Ray Whiteway was appointed to fill the unexpired term of Jake O'Rourke, a "trustee" member, who had passed away in April, 1985. I wish to record my appreciation for the personal contribution of Messrs Valainis and O'Rourke towards the effective administration of the Fund during their respective terms as members of the Board.

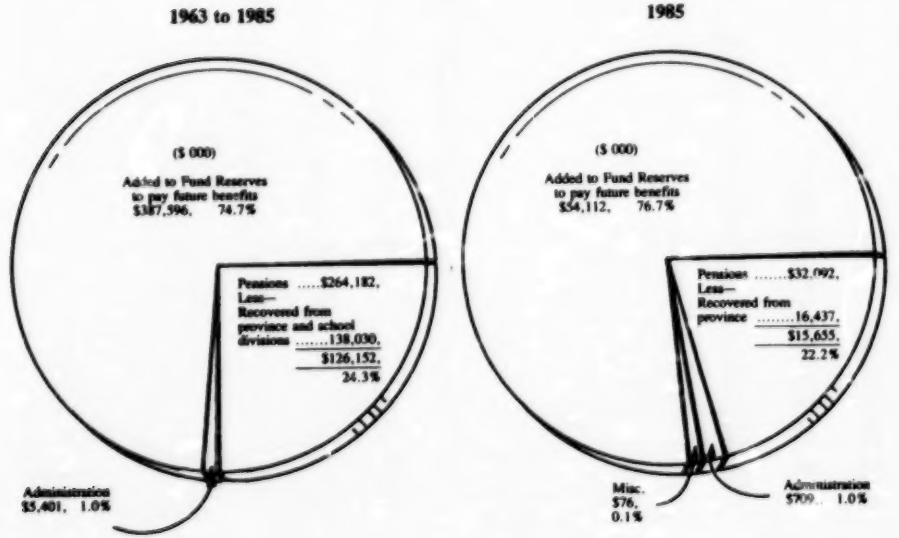
Glen D. Buhr, C.A.
Secretary-Treasurer
Teachers' Retirement Allowances Fund Board

THE TEACHERS' RETIREMENT ALLOWANCES FUND

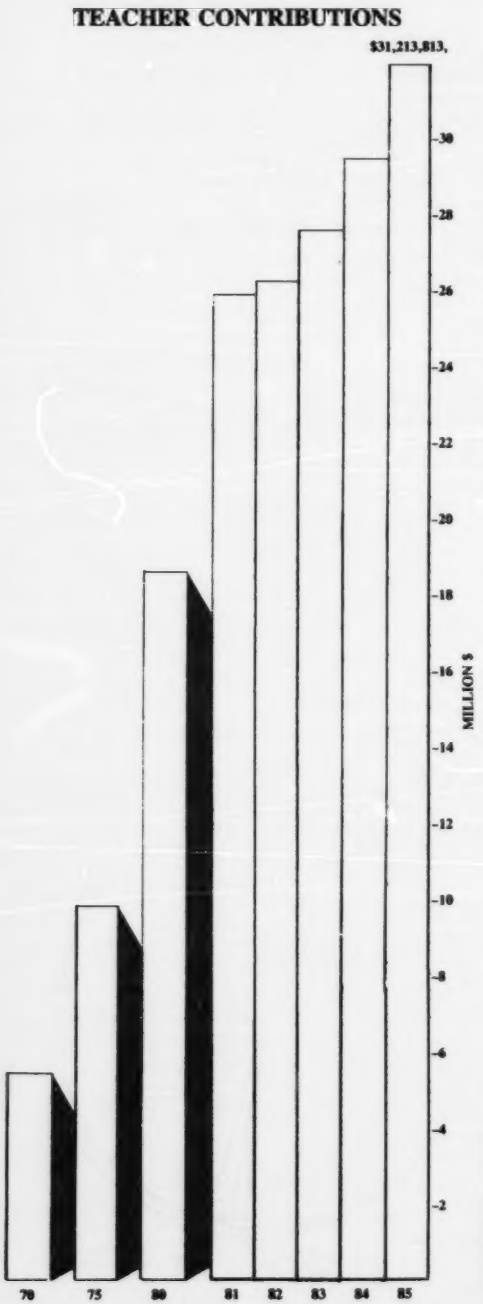
INCOME

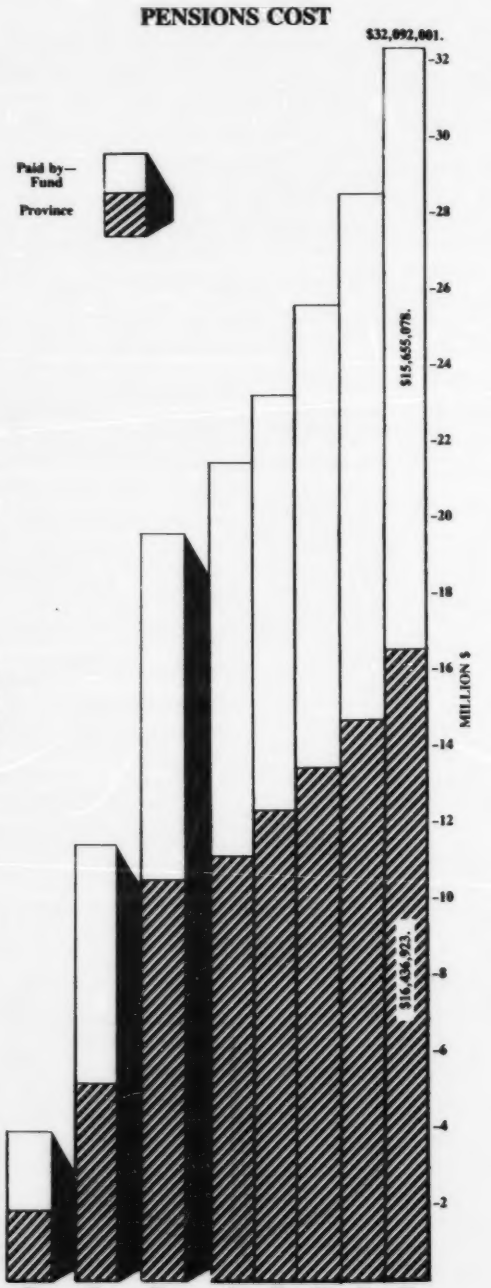


DISPOSITION OF INCOME



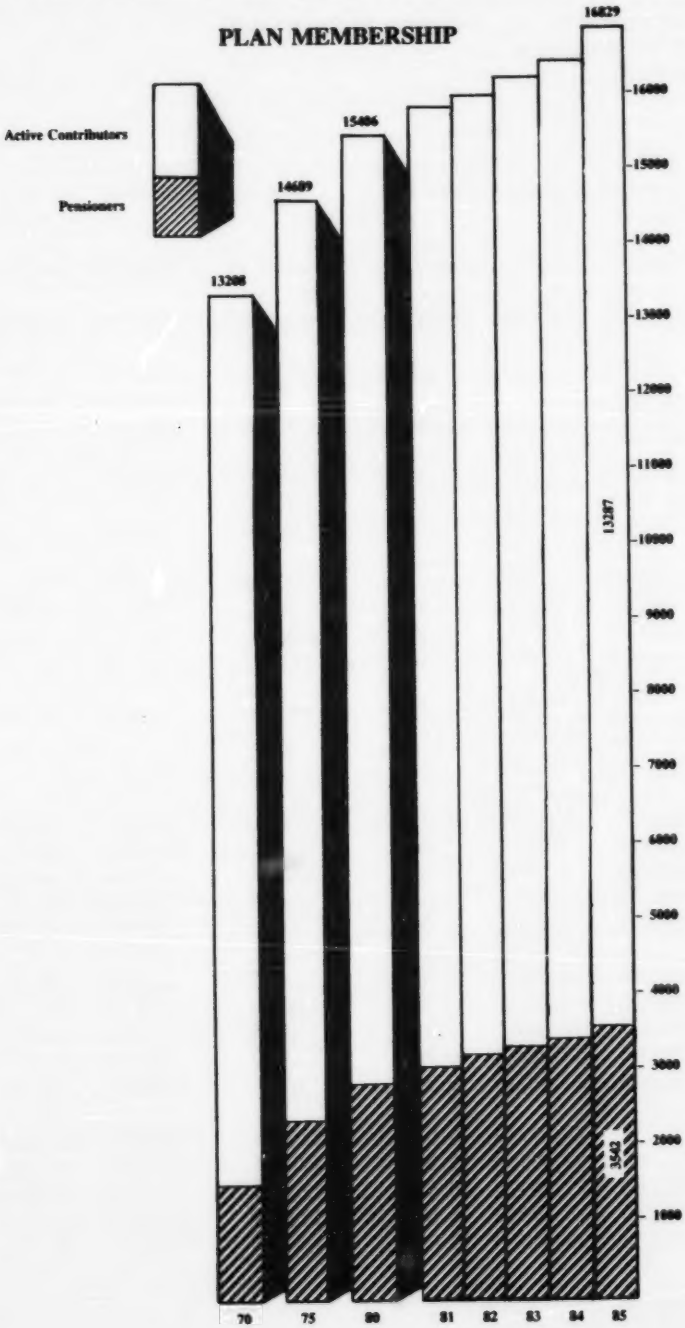
THE TEACHERS' RETIREMENT ALLOWANCES FUND





THE TEACHERS' RETIREMENT ALLOWANCES FUND

PLAN MEMBERSHIP



TEACHERS' RETIREMENT ALLOWANCES FUND BOARD
COMPARATIVE STATISTICS
1925 - 1985

Year Ended June 30	Net Assets	Income From Investments			CONTRIBUTIONS	
			Approx. Rate of	Number of Teachers	Teachers	Province of Manitoba
	($ 000)	($ 000)	Return %	Contributing	($ 000)	($ 000)
1925-1948	1,866,	628,	4.00		1,761,	248,
1949-1963	23,225,	5,548,	3.25-4.70	7,750	12,422,	3,830,
1964.....	25,316,	1,144,	4.85	8,700	2,247,	256,
1965.....	28,084,	1,281,	5.00	9,000	3,137,	201,
1966.....	30,387,	1,427,	5.00	9,400	2,962,	538,
1967.....	33,746,	1,574,	5.15	9,750	2,972,	1,017,
1968.....	36,839,	1.735,	5.35	10,650	3,655,	1,227,
1969.....	40,627,	2,008,	5.50	11,150	4,332,	1,394,
1970.....	44,828,	2,320,	5.60	11,650	4,710,	1,578,
6 mos. ended Dec. 31, 1970	46,311,	1,369,	6.00	11,750	1,806,	1,280,
year ended Dec. 31,						
1971.....	52,119,	3,125,	6.19	12,100	5,620,	3,123,
1972.....	60,249,	3,977,	6.40	12,000	6,281,	3,841,
1973.....	68,188,	3,996,	6.53	12,200	6,982,	6,100,
1974.....	77,256,	3,078,	4.43	12,300	7,862,	8,755,
1975.....	89,277,	7,008,	8.94	12,400	9,316,	7,538,
1976.....	101,988,	8,090,	8.91	12,500	10,656,	8,519,
1977.....	117,140,	9,260,	8.91	12,600	12,348,	9,322,
1978.....	137,127,	12,007,	9.91	12,716	14,538,	9,985,
1979.....	159,066,	14,917,	10.60	12,533	16,292,	10,859,
1980.....	184,458,	17,181,	10.53	12,471	18,065,	11,848,
1981.....	222,755,	22,877,	14.02	12,805	25,985,	12,617,
1982.....	272,360,	27,991,	11.96	12,907	26,293,	13,912,
1983.....	316,200,	29,139,	10.45	12,915	27,557,	15,183,
1984.....	360,060,	28,579,	8.86	13,111	29,580,	16,453,
1985.....	414,458,	39,549,	10.85	13,287	31,214,	18,184,

School Districts	Admin. Expenses	Refunds	Pensions			
			Cost	Being Paid at end of period	Added during period	Deleted during period
($ 000)	($ 000)	($ 000)	($ 000)			
--	33,	279,	464,	109	192	83
3,617,	258,	2,630,	5,500,	781	958	286
527,	44,	531,	1,509,	895	148	34
539,	40,	610,	1,750,	960	101	36
287,	39,	803,	2,072,	1,032	102	30
11,	44,	859,	2,251,	1,084	88	36
20,	57,	904,	2,594,	1,155	120	49
12,	56,	990,	2,906,	1,253	138	40
13,	64,	1,116,	3,261,	1,357	143	39
5,	31,	649,	2,310,	1,458	124	23
16,	90,	1,048,	4,955,	1,606	195	47
10,	114,	1,244,	5,670,	1,737	182	51
9,	123,	1,186,	7,076,	1,980	293	50
8,	136,	1,449,	8,957,	2,176	244	48
6,	168,	1,385,	10,661,	2,289	171	58
5,	215,	1,471,	12,388,	2,416	175	48
5,	290,	1,449,	14,018,	2,524	161	53
11,	261,	1,499,	15,489,	2,649	187	62
4,	292,	1,817,	17,212,	2,789	196	56
5,	358,	2,174,	19,050,	2,935	218	72
--	404,	2,191,	20,867,	3,007	143	71
--	493,	2,210,	23,054,	3,117	194	84
--	549,	2,027,	25,519,	3,239	197	75
--	660,	1,980,	28,522,	3,355	213	97
--	709,	1,914,	32,092,	3,542	260	73

Manitoba

THE TEACHERS' RETIREMENT ALLOWANCES FUND

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the financial statements, being Exhibits A and B and Schedules 1 and 2, of The Teachers' Retirement Allowances Fund for the fiscal year ended December 31, 1985. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1985 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 1 to the financial statements applied on a basis consistent with that of the preceding year.

F. H. Jackson, C.A.
Provincial Auditor

June 23, 1986
Winnipeg, Manitoba

Exhibit A

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Balance Sheet
as at December 31, 1985
(with 1984 figures for comparison)

A S S E T S

	1985	1984
Investments, Schedule 1	$405,778,345	$352,249,190
Unamortized net adjustment to book value of securities sold before maturity	124,722	155,600
Accrued interest on investments	4,803,358	4,872,660
Investment income receivable	989,668	481,749
Balance of teacher and school division contributions owing by school divisions	2,373,570	2,414,587
Computer equipment, Note 1(F) at cost, less accumulated amortization: 1985 - $25,002 (1984 - $10,666)	107,767	95,888
Cash on hand and in bank (book overdraft)	280,710	(13,420)
	$414,458,140	$360,256,254

L I A B I L I T I E S

Balance of Province of Manitoba account	$ (87,000)	$ (115,472)
Benefit Reserves, Exhibit B:		
Reserves for teachers' share of benefits:		
Basic	379,143,556	329,957,638
Pension indexing adjustments	33,576,226	28,933,736
Money Purchase Account, Note 3	120,989	--
Reserves for employers' share of benefits:		
Manitoba Teachers' Society	1,152,036	1,008,717
Manitoba Association of School Trustees	113,100	94,187
	414,105,907	359,994,278
Reserve for Fund's share of employees' pension benefits, Note 1(E)	439,233	377,448
	$414,458,140	$360,256,254

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Statement of Changes in Benefit Reserves
for the year ended December 31, 1985
(with 1984 figures for comparison)

	Reserve for Teachers' Share of Benefits		
	Basic	Pension Indexing Adjustment	Money Purchase Account
Additions:			
Contributions:			
Teachers	$ 26,559,275	$ 4,654,538	$ --
Province of Manitoba:			
Share of benefits charged	16,436,923	--	--
Re: Actuarial liability created by 1970 and 1973 amendments	1,613,300	--	--
Prior rural service of certain Winnipeg teachers	133,351	--	--
Manitoba Teachers' Society	--	--	--
Manitoba Association of School Trustees	--	--	--
Other - Transfers under reciprocal agreements	909,930	--	--
Total contributions	45,652,779	4,654,538	--
Investment Income, Schedule 2, Note 1	35,605,424	3,769,429	10,014
Total additions	81,258,203	8,423,967	10,014
Deductions:			
Pensions paid	28,276,688	3,781,477	--
Contributions refunded	1,914,247	--	--
Transfers under reciprocal agreements	1,061,417	--	--
Administrative expenses	708,958	--	--
Total deductions	31,961,310	3,781,477	--
Transfer of Spousal Interests	(110,975)	--	110,975
Net increase for year	49,185,918	4,642,490	120,989
Balance at beginning of year, before restatement	329,761,020	28,933,736	--
Adjustment prior year, Note 2	196,618	--	--
Balance at beginning of year, restated	329,957,638	28,933,736	--
Balance at end of year, Exhibit A	$379,143,556	$33,576,226	$120,989

Exhibit B

1985			1984
Reserve for Employers' Share of Benefits			
Manitoba Teachers' Society	Manitoba Association of School Trustees	Total	Total
$ --	$ --	$ 31,213,813	$ 29,580,058
--	--	16,436,923	14,705,313
--	--	1,613,300	1,613,300
--	--	133,351	134,780
67,095	--	67,095	75,384
--	8,000	8,000	7,711
--	--	909,930	522,441
$ 67,095	8,000	50,382,412	46,638,987
110,060	10,913	39,505,840	28,697,174
177,155	18,913	89,888,252	75,336,161
33,836	--	32,092,001	28,522,290
--	--	1,914,247	1,980,111
--	--	1,061,417	218,863
--	--	708,958	659,868
33,836	--	35,776,623	31,381,132
--	--	--	--
143,319	18,913	54,111,629	43,955,029
1,008,717	94,187	359,797,660	315,997,769
--	--	196,618	41,480
1,008,717	94,187	359,994,278	316,039,249
$1,152,036	$113,100	$414,105,907	$359,994,278

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments as at December, 31, 1985

	Par Value	Book Value
Fixed income longer term investments:		
Bonds and debentures issued by, or guaranteed by, the following:		
Canada	$ 33,043,750	$ 27,972,559
Province of Alberta	165,000	164,768
Province of British Columbia	324,000	321,960
Province of Manitoba	23,823,000	23,739,869
Province of New Brunswick	965,000	962,006
Province of Newfoundland	1,150,000	1,144,015
Province of Nova Scotia	270,000	268,209
Province of Ontario	1,400,000	1,395,416
Province of Prince Edward Island	740,000	732,328
Province of Quebec	860,000	857,358
Province of Saskatchewan	200,000	198,590
Hospital Districts	6,522,000	6,500,626
Municipal corporations	9,778,305	9,749,823
Corporations	60,228,832	58,313,040
Managed bond fund	10,000,000	10,000,000
	149,469,887	142,370,567
Mortgages:		
Insured:		
National Housing Act (Canada)	67,579,907	66,878,805
Other	7,052,048	6,927,583
Uninsured	14,700,996	14,680,296
	89,332,951	
Total fixed income longer term investments at amortized cost		230,857,251
Less: Provision for capital losses, Note 1(B) (i)		1,763,259
Net fixed income longer term investments, carried forward		$229,093,992

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investments as at December 31, 1985

	Book Value
Brought Forward	$229,093,992
Non-fixed income investments:	
Real estate equity investments:	
Common shares	22,863,966
Participating bonds	38,710,364
Qualifying shares	30,000
Total real estate equity investments at appraised values	61,604,330
Less: Provision for decline in appraised values	1,728,684
Net real estate equity investments	59,875,646
Direct natural resource investments:	
Shares and notes, at cost plus interest in retained earnings	14,822,377
Investment in subsidiary, Note 2	6,525,146
Total direct natural resource investments	21,347,523
Venture capital equity investments, at cost	9,249,169
Mortgage investment corporation shares, at cost	1,612,015
Total non-fixed income investments	92,084,353
Short Term notes, at cost	84,600,000
Total Investments, Exhibit A	$405,778,345

Schedule 2

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Summary of Investment Income for the year ended December 31, 1985 (with 1984 figures for comparison)

	1985	1984
Fixed income longer term investments:		
Interest	$26,111,969	$24,086,957
Amortization of discounts and premiums	451,426	349,255
	26,563,395	24,436,212
Less: Allocation to provision for capital losses	547,577	522,515
	26,015,818	23,913,697
Non-fixed income investments:		
Real estate equity:		
Interest and dividends	4,703,509	3,677,313
Adjustment due to changes in book value of investments	503,977	354,696
	5,207,486	4,032,009
Direct natural resources:		
Income from subsidiary, Note 2	1,080,153	608,106
Dividends	677,004	87,000
Adjustments due to changes in book value of investments	(82,987)	161,494
	1,674,170	856,600
Venture capital equity:		
Dividends	81,232	10,787
Mortgage investment corporation:		
Dividends	153,826	144,024
Canadian Commercial Bank:		
Dividends	44,898	73,164
Adjustment due to changes in book value of investments, Note 1(B) (ii)	(1,660,863)	(6,327,136)
	(1,615,965)	(6,253,972)
Short term notes:		
Interest	8,032,679	6,031,358
Total investment income	39,549,246	28,734,503
Less: Allocated to reserve for funds's share of employees' pension benefits	43,406	37,329
Net Investment income, Exhibit B	$39,505,840	$28,697,174

THE TEACHERS' RETIREMENT ALLOWANCES FUND

Notes to the Financial Statements for the year ended December 31, 1985

1. Significant Accounting Policies:

The significant accounting policies are summarized below:

(A) The Fund follows the accrual basis of accounting in all cases where the amount of the accrual is material, specifically teacher contributions and investment income.

(B) The investment income measurement policies consist of:

(i) Fixed income investments:

Income on fixed income investments includes the net effect of amortization of discounts and premiums on securities held as well as amortization of book losses on bonds sold before maturity in order to acquire other securities for an increase in net yield.

One quarter of 1% of the weighted average monthly book value during the year of fixed income longer term investments is allocated to a provision for capital losses and any actual losses realized are charged against the provision.

(ii) Equity investments:

Where valuation information is available, which is considered by the Investment Committee to be reliable, equity investments are adjusted to reflect the change in their values. One-half of any unrealized appreciation is taken into income in the year and the balance is credited to the provision for valuation declines. In any year that the valuations decrease, the whole of the decrease is charged to the provision. When an investment is sold, the balance in the provision pertaining to the investment sold is transferred to income. As a result of the failure of the Canadian Commercial Bank in 1985, the carried value of these securities has been written down to a nominal value of $1 and the book loss of $1,660,863 has been applied as a reduction of 1985 investment income.

(iii) Real estate equity investments:

The same income measurement policy that applies to the Fund's other equity investments has been adopted for real estate equity investments. The Board has recognized appraised values of the underlying properties on real estate investments for purposes of this policy. Appraisals are done by management and test verified by independent appraisers at September 30 in each year. The Fund's share of the appraisal surplus on that date is reflected in the accounts. Transactions recorded as a result of this policy were as follows:

		Added to	
	Appraisal Surplus	Investment Income	Provision for Market Declines
As at December 31, 1980	$ 6,749,000	$ 3,374,000	$ 3,375,000
Year ended December 31, 1981	7,688,000	3,844,000	3,844,000
Year ended December 31, 1982	(1,754,000)		(1,754,000)
Year ended December 31, 1983	(2,174,000)		(2,174,000)
Year ended December 31, 1984	(550,000)		(550,000)
Year ended December 31, 1985	(1,012,316)		(1,012,316)
Balances, December 31, 1985	8,946,684		$ 1,728,684
Real estate investments, cost	52,657,646		
Real estate investments, appraised value	$61,604,330		

(iv) Investment in Subsidiary is accounted for on the Equity Method. On this basis, the net income of the wholly owned subsidiary, Teachers' Retirement Resources Investment Corporation of Manitoba, Inc., is recognized as income to the fund and increases the carrying value of the investment.

(C) Pension Indexing Adjustment Reserve:

An allocation of teachers' contributions is made in accordance with the Act to the reserve. Interest is allocated to the reserve on the basis of the average rate earned by the Fund on total new fixed income investments made since establishment of the reserve.

Cost of living pension adjustment payments are calculated effective July 1 in each year and are based on the lesser of the increase in the Canadian Consumer Price Index for the preceding calendar year, or the amount, determined by an actuarial review, that could be paid without resulting in an unfunded liability in the reserve.

(D) The financial statements do not reflect the financial position of the Fund on an actuarial valuation basis. In accordance with the Act, an actuarial valuation and report is required every 3 years. The most recent actuarial report as at January 1, 1984, disclosed a surplus of $37,677,206 compared to an unfunded liability of $19,506,225 at January 1, 1981. This most recent valuation did not make allowance for the financial effect of changes required to be made as a result of amendments to The Pension Benefits Act and the Actuary advised that it is possible that all of the surplus will be required to finance the resulting increase in liabilities.

(E) Reserve for Fund's share of employees' pension benefits:

A portion of the Fund was allocated to provide for the Fund's accrued actuarial liability based on an actuarial report at December 31, 1980. The report provided a method of allocating funds to the Reserve each year between triennial valuations to recognize the annual increase in this liability and for adjustments to be made for actual experience at each valuation. Transactions affecting the Reserve in 1985 and 1984 were as follows:

	1985	1984
Balance, beginning of year.....	$377,448	$300,648
Charged to Administrative expenses:		
Adjustment re Actuarial Valuation at December 31, 1983.....	--	23,952
Required employer contributions...	21,198	18,433
Interest allocated from investment income.....	43,406	37,329
	442,052	380,362
Less: Fund's share of pension payments.....	2,819	2,914
Balance, end of year.....	**$439,233**	**$377,448**

(F) Computer:

Computer equipment is capitalized and is amortized on a straight line basis over five years.

2. Investment in Subsidiary:

The Teachers' Retirement Resources Investment Corporation of Manitoba Inc., a wholly owned subsidiary of the Fund, was incorporated on July 13, 1983, for the purpose of participating in the energy resource sector on behalf of the Fund.

During 1985, the subsidiary retroactively changed its method of accounting for its investments to the equity basis. Previously income was deemed to have been earned at the lesser of a Government of Canada long term bond rate at the commitment date, plus 5%, or the amount received.

The effect of this change in policy by the subsidiary has been to increase the book value of the investment in the subsidiary and of the basic reserve for Teachers' Share of Benefits by $241,655 (1984 - $196,618). The Fund's investments shown in Schedule 1 include $5,245,307 recoverable advances provided by the Fund to the Corporation, the retained earnings of the Corporation, $1,279,739 and an amount of $100 representing the capital stock issued by the Corporation. Net income resulting from the Corporation's operations is recognized as income of the Fund.

3. Money Purchase Account:

The Teachers' Retirement Allowances Fund Board has established rules for the Money Purchase Account in accordance with Section 68 of The Teachers' Pensions Act. Under these rules, eligible individuals may transfer to the Money Purchase Account an amount from the Fund, the pension plan of a prior employer, or a locked-in registered retirement savings plan, to provide for an annuity or other settlement in the future. The Money Purchase Account is accounted for separately by the Board. The Board charges an annual administrative fee of 1% of the average value of the assets in the plan. The accumulated value of the eligible individual's account, upon election of an annuity under the Money Purchase Account, will be transferred to an Annuity Reserve part of the Benefit Reserves.

Manitoba

TEACHERS' RETIREMENT RESOURCES INVESTMENT CORPORATION OF MANITOBA INC.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of The Teachers' Retirement Resources Investment Corporation of Manitoba Inc. as at December 31, 1985 and the statements of operations and change in retained earnings and change in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements applied, after giving retroactive effect to the change in the policy on investment valuation and income measurement as described in note 4, on a basis consistent with that of the preceding year.

F. H. Jackson, C.A.
Provincial Auditor

June 23, 1986
Winnipeg, Manitoba

TEACHERS' RETIREMENT RESOURCES INVESTMENT CORPORATION OF MANITOBA INC.

Balance sheet
as at December 31, 1985
(with 1984 figures restated for comparison)

ASSETS

	1985	1984
Cash	$ 1,000	$ 1,000
Accounts receivable:		
Alberta royalty tax credit	412,943	--
Petroleum incentive programs:		
Government of Canada	294,691	--
Province of Alberta	435,895	--
Joint venture repayments	41,455	113,997
Joint venture oil and gas resource project investments, Note 2(c), (d) and 3(a)	5,339,162	4,467,817
Total assets	$6,525,146	$4,582,814

LIABILITIES & SHAREHOLDER'S EQUITY

Liabilities:		
Shareholder's advances, Note 2(b)	$5,245,307	$4,383,128
Shareholder's equity:		
Capital stock, Note 5	100	100
Retained earnings, Exhibit B	1,279,739	199,586
Total shareholder's equity	1,279,839	199,686
Total liabilities and shareholder's equity	$6,525,146	$4,582,814

TEACHERS' RETIREMENT RESOURCES INVESTMENT CORPORATION OF MANITOBA INC.

Statement of Operations and Change in Retained Earnings for the year ended December 31, 1985 (with 1984 figures restated for comparison)

	1985	1984
Revenue:		
Joint venture oil and gas resource projects, net earnings	$ 670,378	$ 555,568
Alberta royalty tax credits	412,943	--
	1,083,321	555,568
Expenses:		
Professional fees and administrative expenses	3,168	374
Net income	$1,080,153	$ 555,194

Change in Retained Earnings

Retained earnings, beginning of year, before restatement	$ 2,968	$ 52,912
Adjustment of prior years, Note 4	196,618	41,480
After restatement	199,586	94,392
Net income	1,080,153	555,194
	1,279,739	649,586
Dividend	--	(450,000)
Retained Earnings, end of year, Exhibit A	$1,279,739	$ 199,586

Exhibit C

TEACHERS' RETIREMENT RESOURCES INVESTMENT CORPORATION OF MANITOBA INC.

Statement of Change in Financial Position for the year ended December 31, 1985 (with 1984 figures restated for comparison)

	1985	1984
Operations:		
Net income	$1,080,153	$ 555,194
Adjustment for items not affecting cash:		
Joint venture project net earnings	(670,378)	(555,568)
Royalty tax credit receivable	(412,943)	--
General operator allocation	--	(175)
Cash provided by (used for) operations	(3,168)	(549)
Financing:		
Shareholder's advances	2,500,000	4,000,000
Repayment of shareholder's advances	(1,637,821)	(811,196)
Cash provided by financing	862,179	3,188,804
Investment in joint venture oil and gas resource projects:		
Contributions	2,500,000	4,000,000
Repayments received	(1,640,989)	(1,261,745)
Cash used for investment	859,011	2,738,255
Increase in cash before dividends	--	450,000
Dividends	--	450,000
Increase (decrease) in cash	--	--
Cash, beginning of year	1,000	1,000
Cash, end of year	$ 1,000	$ 1,000

TEACHERS' RETIREMENT RESOURCES INVESTMENT CORPORATION OF MANITOBA INC.

Notes to Financial Statements for the year ended December 31, 1985

1. THE CORPORATION:

The Teachers' Retirement Resources Investment Corporation of Manitoba Inc. (the "Corporation"), is a pension fund resources corporation incorporated under The Corporations Act of Manitoba on July 13, 1983. The Corporation is owned entirely by The Teachers' Retirement Allowances Fund (the "Fund").

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) The Corporation follows the accrual basis of accounting in accordance with generally accepted accounting principles.

(b) The Corporation receives non-interest bearing shareholder's advances from the Fund for specific resource projects and accounting is maintained on a specific project basis.

(c) The Corporation accounts for joint venture oil and gas resource project investments on the equity basis. Under this method the Corporation reflects its share of the net earnings of joint venture projects after taking into account depletion and depreciation of projects assets. The depletion and depreciation is based on estimated recoverable reserves of petroleum and natural gas as determined by the Operator and substantiated by independent petroleum consultants.

(d) Royalty tax credits received and accrued are taken into income. Petroleum incentive grants received and accrued are considered capital recoveries and are deducted from the investment in joint venture resource projects.

3. Joint venture oil and gas resource project investments:

(a) The following schedule summarizes the joint venture oil and gas resource project investments from inception to date:

Project	Initial Investment	Repayments	Petroleum Incentive Grants	Net Earnings Reported	Balance Dec. 31/85	Balance Dec. 31/84
1983	$2,400,000	$(2,338,744)	$ (27,188)	$ 796,875	$ 830,943	$1,460,655
1984	3,000,000	(783,995)	(432,033)	431,798	2,215,770	3,007,162
1985	2,500,000	(28,867)	(271,365)	92,681	2,292,449	--
	$7,900,000	**$(3,151,606)**	**$(730,586)**	**$1,321,354**	**$5,339,162**	**$4,467,817**

4. CHANGE IN ACCOUNTING POLICY:

The Corporation has retroactively changed its policy on investment valuation and income measurement for joint ventures to the equity method. Previously the development projects had been deemed to earn income as the lesser of the Government of Canada long term bond rate, at the commitment date, plus 5%, or the amount received. The development project investments were reduced by the excess of actual recoveries over the deemed yield.

The effect of the change in policy has been to increase joint venture oil and gas resource project investments, and retained earnings by $241,655 (1984 - increased by $194,618) and net income by $45,037 (1984 - $155,138).

5. CAPITAL STOCK:

Authorized:

Authorized capital consists of an unlimited number of Class A and Class B shares with no maximum consideration.

Issued and fully paid:

100 Class A common shares at $1.00

6. COMMITMENTS:

The Corporation participates in oil and gas drilling programs under joint venture agreements. During the year ended December 31, 1984, the Corporation committed $5,000,000 to a 1985 oil and gas drilling program; as of December 31, 1985, $2,500,000 has been disbursed.